

Message Text

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ACTION ARA-14

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SUBJECT: CONTROVERSY OVER GOV INFLATION MEASURES CONTINUES

REF: CARACAS 6891

1. SUMMARY. DEBATE CONTINUES OVER ANTI-INFLATION MEASURES ANNOUNCED BY PRESIDENT PEREZ JULY 10. FEDECAMARAS (NATIONAL ASSOCIATION OF CHAMBERS OF COMMERCE AND INDUSTRY) HAS FORMALLY REQUESTED MAJOR CHANGES IN REGULATIONS. WHILE ADMITTING THE NEED FOR SHORT TERM GOVERNMENT ASSISTANCE IN PROVIDING LIQUIDITY TO SECTORS MOST SEVERELY AFFECTED BY THE MEASURES, GOV SPOKESMEN MAINTAIN THE REGULATIONS WERE NECESSARY AND APPROPRIATE, AND WILL NOT BE RESCINDED. END SUMMARY.

2. GOVERNMENT MEASURES ANNOUNCED JULY 10 INTENDED TO COMBAT INFLATION BY SLOWING THE RATE OF GROWTH OF THE MONEY SUPPLY HAS SPARKED AN INTENSIVE DEBATE IN VENEZUELA. NO ONE DENIES THAT INFLATION IS A REALY PROBLEM HERE, BUT THERE IS SERIOUS DIS-AGREEMENT AS TO THE METHODS THAT SHOULD BE USED TO MEET THE PRBLEM.

3. FEDECAMARAS, THE MAJOR SPOKESMAN FOR PRIVATE SECTOR BUSINESS INTERESTS IN THIS COUNTRY, HAS SUBMITTED A SPECIAL REPORT TO THE LIMITED OFFICIAL USE

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GOVERNMENT REQUESTING SPECIFIC CHANGES IN THE NEW REGULATIONS. (FOR A SUMMARY OF THE GOV'S ANTI-INFLATION MEASURES, SEE REFTEL). THE DOCUMENT CHARGES THAT GOV SPENDING HAS BEEN A MAJOR CAUSE OF INFLATIONARY PRESSURES AND THAT PROMISES TO HOLD THE LINE IN THIS AREA HAVE NOT BEEN KEPT. (ACCORDING TO A RECENT MINISTRY OF FINANCE PRESS RELEASY, THE 1978 BUDGET BILL WILL CALL FOR EXPENDITURES OF BS. 40.8 BILLION, UP ALMOST 15 PERECENT FROM THE 1977 BUDGET BILL.) I

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ADDITION, FEDECAMARAAS OBSERVES THAT SOME SECTORS (E.G. CONSTRUCTION) HAVE BEEN AFFECTED MORE SEVERELY THAN OTHERS. HOWEVER, THE WHOLE ECONOMY HAS BEEN ADVERSELY AFFECTED BY THE SHORTAGE OF LIQUIDITY ACCORDING TO THE REPORT.

4. IN ADDITION, THE FEDECAMARAS REPORT MAKES THE FOLLOWING RECOMMENDATIONS:

-- MORTGAGE BANKS HAVE BEEN PARTICULARLY AFFECTED BY THE NEW MEASURES. THE GOV SHOULD EASE RESTRICTIONS IN THIS AREA AND SUPPORT THE INDUSTRY BY BUYING UP MORTGAGE BONDS WHERE NECESSARY. OTHERWISE THE CURRENT SHORTAGE OF CREDIT TO THE CONSTRUCTION INDUSTRY WILL CONTINUE INDEFINITELY.

-- COMMERCIAL BANK RESERVE REQUIREMENTS SHOULD BE EASED AND BANKS IN SPECIAL DIFFICULTY SHOULD HAVE EASIER ACCESS TO GOVERNMENT ASSISTANCE THROUGH REDISCOUNT FACILITIES. (NOTE: ACCORDING TO A GOV ANNOUNCEMENT, THE CENTRAL BANK HAS MADE AVAILABLE A TOTAL OF BS. 1,250 BILLION VIA REDISCOUNT FACILITIES BETWEEN THE ANNOUNCEMENT OF THE NEW MEASURES AND THE END OF AUGUST.

-- THE 30 PERCENT LIMIT ON PROFITS FROM THE INITIAL SALE OF NEW BUILDINGS IS TOO INFLEXIBLE AND TOO STRICTLY INTERPRETED. AS A RESULT LIMITED OFFICIAL USE

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CONSTRUCTION PROJECTS HAVE BEEN SLOWED OR STOPPED ALTOGETHER PENDING CLARIFICATIONS ON DIFFICULT POINTS.

5. IN RESPONSE, THE GOV (INCLUDING THE PRESIDENT HIMSELF) HAS ADMITTED THAT MISTAKES WERE MADE IN DRAFTING THE NEW REGULATIONS. AMENDMENTS TO THE ORIGINAL TEXTS HAVE BEEN MADE AND LIQUIDITY ASSISTANCE MADE AVAILABLE IN SPECIAL CIRCUMSTANCES. HOWEVER, THE MEASURES WERE APPROPRIATE AND NECESSARY TO COMBAT SPECULATION AND INFLATION IN VENEZUELA AND WOULD NOT BE RESCINDED. NEVERTHELESS, THE PRESIDENT HAS ORDERED THE ECONOMIC CABINET TO STUDY FEDECAMARAS' SUGGESTIONS AND MAKE RECOMMENDATIONS ON POSSIBLE MODIFICATIONS TO THE ECONOMIC MEASURES.
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